



NATURAL GAS UPDATE

March 2005

Natural Gas Prices (\$/MMBtu)

Average Price	February 2005	January 2005	February 2004
PG&E, Malin	5.66	5.66	4.92
PG&E, SoCal Border	5.74	5.72	5.04
SoCalGas Average	5.73	5.70	5.02
Henry Hub, Louisiana	6.12	6.15	5.40

Source: Natural Gas Intelligence

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This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

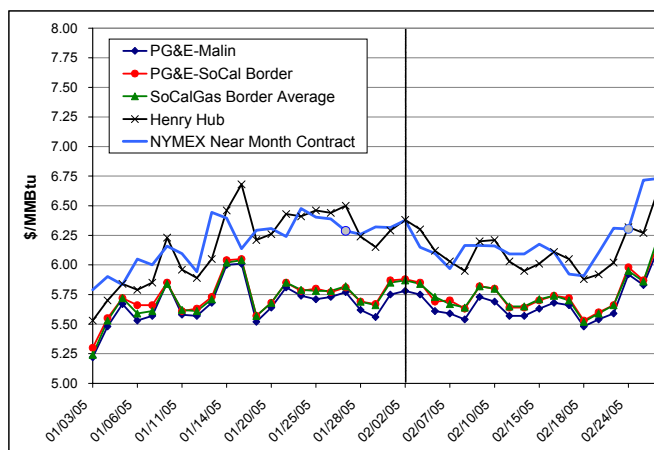
California Air Resources Board
California Energy Commission
California Public Utilities Commission
California State Lands Commission
Department of Conservation, Division of Oil, Gas, & Geothermal Resources
Department of General Services
Department of Water Resources

For Legislative inquiries, please contact :
Cecile Martin 916-654-4942

For media inquiries, please contact:
Claudia Chandler 916-654-4989

Natural Gas Prices

The natural gas market remained relatively stable during February 2005, with daily spot prices averaging nearly the same as those in January 2005. Spot prices at the California border and Henry Hub did, however, jump during the last week of the month.

**Figure 1: Daily Natural Gas Spot and NYMEX Prices**

Moderate

temperatures kept natural gas demand

in check in California during February 2005. Both SoCalGas and PG&E had below average customer deliveries in February, and spot prices at the California border were flat-to-declining for most of the month. Price influences from outside the state caused natural gas prices at the California border to increase during the last week of the month, but the relatively mild weather conditions in the West kept prices about 50 cents below spot prices at Henry

(Please see "Natural Gas Prices" on page 2)

California System Operations and Gas Storage Update

California natural gas receipts and deliveries dropped considerably during February 2005, compared to recent history, with the largest deviations from average receipts and deliveries occurring in Southern California.

During February 2005, SoCalGas brought an average of 2,360 MMcf of natural gas per day into its system, 13 percent below the average daily receipts over the previous four years. SoCalGas' customer deliveries averaged 2,953 MMcf per day, about 12 percent below the four-year average (please see Figure 2 on page 2). The below-average receipts and deliveries reflect the relatively low demand conditions experienced in Southern California during the month due to moderate weather.

In the PG&E service territory, receipts and deliveries of natural gas were also lower than normal, albeit closer to the daily averages than those for SoCalGas. PG&E, on average, brought 2,321 MMcf of natural gas per day into its system, five percent less than the February average of 2,439 MMcf per day. Deliveries to PG&E customers were also down five percent during February, averaging 2,639 MMcf per day. Deliveries over the last four years averaged 2,785 MMcf per day (please see Figure 3 on page 2).

February 2005 marked the third consecutive month of heavy natural gas storage activity, with net withdrawals during the month totalling 25 Bcf.

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Natural Gas Prices

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Hub, Louisiana.

At Henry Hub, natural gas spot price trended slightly downward for the first three weeks of February, before posting strong gains during the final week of the month. Many parts of the Eastern U.S. experienced winter storms at various times during February 2005, but it was not until the last week of the month that the cold weather was widespread enough to push natural gas spot market prices higher across the board. During that time, gas prices received additional support from the petroleum market, with oil prices topping \$50 per barrel for the first time in months. The rise in oil prices put upward pressure on natural gas futures prices as well. This, in turn, caused spot prices to increase as the March NYMEX gas contract approached expiration on February 24. ■

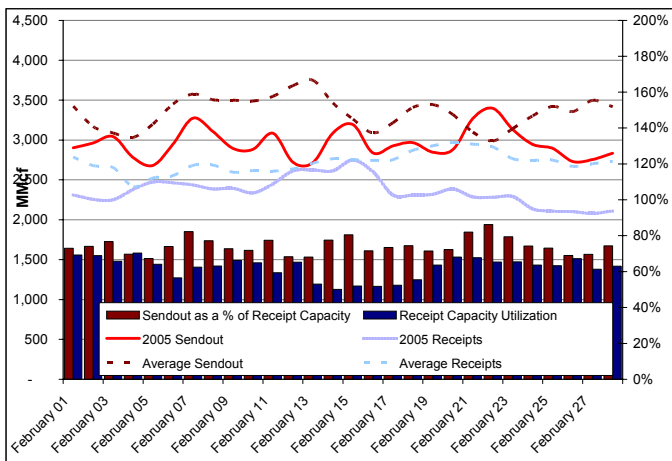


Figure 2. SoCalGas' Natural Gas Receipts and Deliveries, February 2005

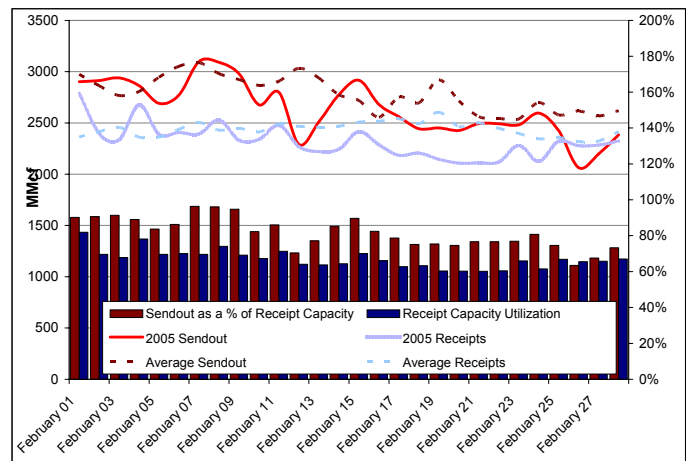


Figure 3. PG&E's Natural Gas Receipts and Deliveries, February 2005

System Operations

(Continued from page 1)

Unlike the previous two months, however, net withdrawals during February 2005 were slightly below the average February pull of 27 Bcf. California entered March 2005 with total gas inventories of 138 Bcf, well above the March 1 average of 106 Bcf (please see Figure 4). ■

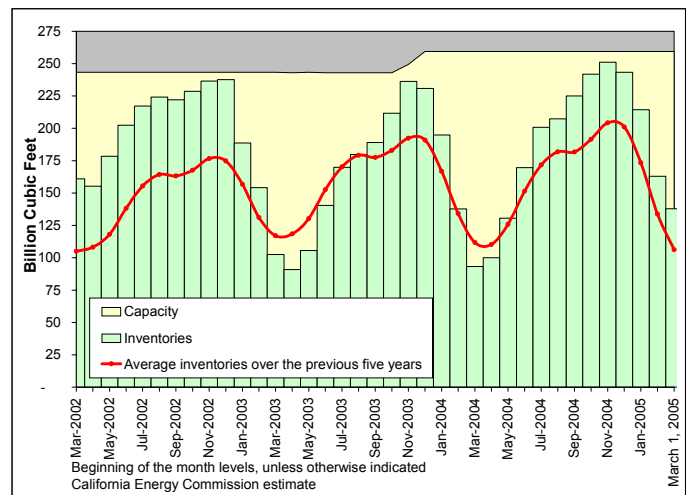


Figure 4. Monthly California Storage Inventories

U.S. Natural Gas Storage

The EIA reported that national natural gas storage inventories stood at 1,613 Bcf on February 25, 2005. During the month, 432 Bcf of natural gas was withdrawn from storage facilities nationwide. Around the same time last year, national natural gas storage inventories were 1,198 Bcf, and the five-year average for the end of February is 1,255 Bcf. ■

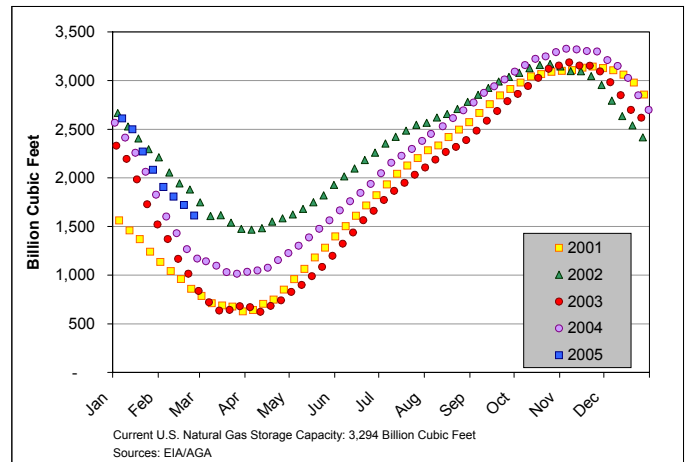


Figure 5. U.S. Natural Gas Storage Levels

California Gas Drilling and Production

After languishing for the previous two months, statewide natural gas production increased modestly during December 2004. Daily natural gas in California averaged 893 MMcf per day during December 2004, about 9 MMcf per day greater than November. Total natural gas production in California, including offshore natural gas production in federal waters, totaled 330,000 MMcf during 2004, compared to the 357,000 MMcf of natural gas produced in the state during 2003. 2004 marked the fifth consecutive year of declining annual natural gas production in California.

During February 2005, another three natural gas drilling permits were issued for District 6, bringing the cumulative total to six permits issued so far during 2005. District 6 produces the largest volume of non-associated natural gas in California. The district encompasses all of Northern California north of Santa Cruz, Santa Clara, Stanislaus, Tuolumne, and Mono counties, as well as a small portion of Stanislaus County. ■

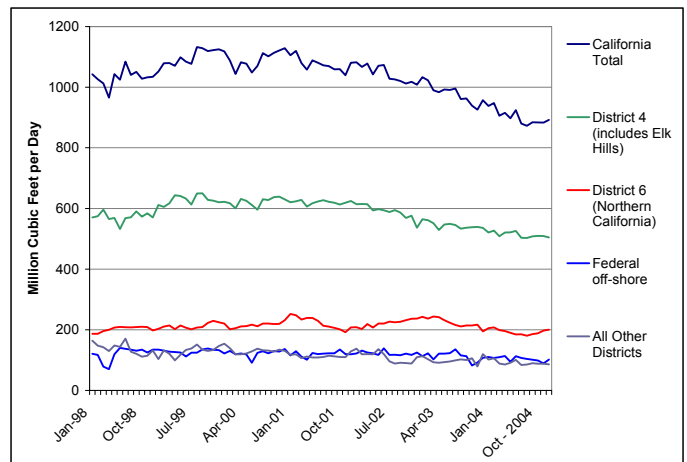


Figure 6. California Natural Gas Production, by District

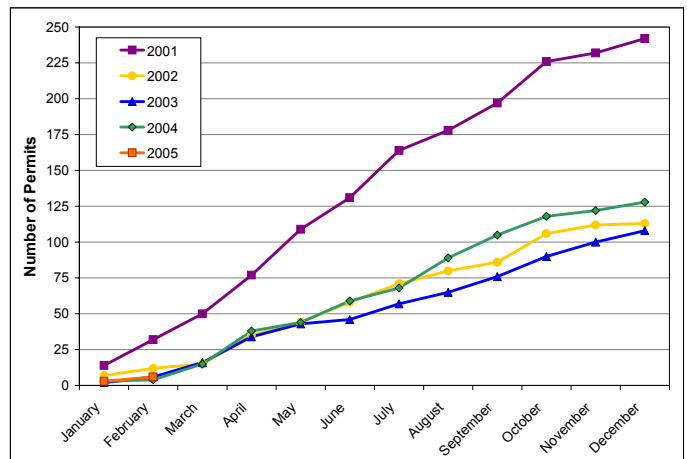


Figure 7. Cumulative Drilling Permits Issued for District 6 (Northern California)

Regulatory Summary

California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status
I.0211040 Investigation on Natural Gas Prices from December 2000 to May 2001	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	On December 16, 2004, CPUC rejects ALJ's Proposed Decision (PD). (ALJ PD had found that SoCalGas took actions that increased gas prices in 2000-2001 in order to profit.)
A.02-12-027/A.02-12-028 SoCalGas and SDG&E cost of service and PBR proposal	Establishes revenue requirement for SoCalGas and SDG&E, may establish PBR structure for SoCalGas and SDG&E	Phase 1 (cost of service) decision issued December 2, 2004. Phase 2 decision on PBR issued March 17, 2005.
I.0404024 Order Instituting Investigation into the proposal of Sound Energy Solutions to construct and operate a liquefied natural gas terminal at the Port of Long Beach	Orders Sound Energy Solutions (SES) to file an application for a certificate of public convenience and necessity if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.	Schedule delayed to allow review of EIR/EIS
A.04-01-034 SoCalGas "Native Gas" Production and Revenue Sharing	SoCalGas requests authority to produce natural gas in vicinity of storage fields, and share revenues from sales with customers	Partial settlement of issues reached with some parties. Case is submitted. ALJ to issue PD. Additional settlement talks occurring. Status report issued October 29, 2004.
R.0401025 Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California	Considers and rules on California natural gas utilities' proposals to ensuring reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 1 Decision adopted on September 2, 2004. Phase 2 scoping memo issued 2/28/05. PHC scheduled March 23, 2005. Joint CPUC/CEC workshop on natural gas quality issues held in mid-February, workshop report due April 4, 2005. CPUC staff working with utilities, ORA & TURN on interstate capacity portfolio. TURN & RACE file application for rehearing, RACE files additional application for rehearing of Phase 1 decision October 12, 2004.
A.04-07-044 PG&E BCAP	Allocates PG&E's gas distribution revenue requirement to customer classes and sets rate design	Hearings concluded. Settlement reached on virtually all issues. Briefs were due March 23, 2004, and reply briefs are due April 8, 2004.
A.04-08-018 SoCalGas to establish regulatory authority over the access for natural gas provided by California gas producers	Establish the terms and conditions under which natural gas produced by California gas producers will be granted access to the SoCalGas operating system	Application filed August 16, 2004. Protests filed September 20, 2004. Status reports issued October 29, 2004 and December 9, 2004 by CIPA, WSPA, SoCalGas.
A.04-09-009 Southwest purchase of Avista's natural gas properties	Requests authority for Southwest Gas to purchase Avista's California natural gas properties and take over service to Avista's customers	Decision issued March 17, 2005, allowing sale of Avista assets to SW Gas.
A.04-12-004 SoCalGas/SDG&E to establish firm tradeable rights, system integration and off-system deliveries	Proposes a system of firm, tradeable receipt point capacity rights; integration of SoCalGas and SDG&E transmission rates; and authority to make deliveries of gas off the SoCalGas/SDG&E system	Application filed December 2, 2004. Protests filed January 20, 2005. SoCalGas/SDG&E respond to protests on January 31, 2005. A Prehearing Conference is scheduled for late April.
A.05-03-001 PG&E for adoption of policy and procedure for acquisition of incremental core gas storage	Proposes adding core storage to meet new reliability standard, and procedure under which PG&E would obtain new storage capacity, including for independent storage providers.	Application filed March 2, 2005.